

Audit, Governance & Standards Committee

27th October

2022

HRA S151 Officer Update

Relevant Portfolio Holder	Councillor – Karen Ashley Portfolio Holder for Finance and Enabling
Portfolio Holder Consulted	-
Relevant Head of Service	Michelle Howell – Head of Finance and Customer Services
Report Author Peter Carpenter	Job Title: Head of Finance and Customer Services Contact email: michelle.howell@bromsgroveandredditch.gov.uk
Wards Affected	All Wards
Ward Councillor(s) consulted	No
Relevant Strategic Purpose(s)	An effective and sustainable Council
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. RECOMMENDATIONS

The Committee is asked to note updates on the HRA Position and the response to the recent Consultation on proposed rent increase by the Government.

2. BACKGROUND

2.1 This report will update Members on the following 4 areas:

- Revenue Monitoring 22/23.
- Capital Spending 22/23.
- The viability of the HRA under existing conditions – comments on long term viability.
- The Governments consultation on Rent Increases.

Revenue Monitoring 2022/23

2.2 The table below sets out the present monitoring position for revenue expenditure at Quarter 2 2022/23. The projected variance at year end is a £141k surplus which is a £213k improvement on the budgeted £72k loss.

REDDITCH BOROUGH COUNCIL

Audit, Governance & Standards Committee

27th October

2022

HOUSING REVENUE ACCOUNT (HRA)							
REVENUE 2022/23 QUARTER 2 OUTTURN		2022/23	2022/23	2022/23	2022/23	2022/23	2022/23
		Full Year	Budget to Date	Actuals + Comm	Variance	Projected	Projected
		£'000	Apr - Sept	Apr - Sept	Apr - Sept	Outturn	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
INCOME							
Dwelling Rents	DR	-24,025	-12,513	-12,565	-52	-24,026	-1
Non-Dwelling Rents	NDR	-556	-278	-435	-157	-535	21
Tenants' Charges for Services & Facilities	CSF	-692	-346	-353	-7	-572	120
Contributions towards Expenditure	CTE	-46	-23	-18	5	-53	-7
				0			
Total Income		-25,318	-13,160	-13,371	-212	-25,185	133
EXPENDITURE							
Repairs & Maintenance	R&M	6,545	3,272	3,813	541	6,240	-305
Supervision & Management	S&M	8,219	4,109	1,575	-2,535	8,007	-211
Rent, Rates, Taxes & Other Charges	RRT	264	132	148	16	264	0
Provision for Bad Debts	BDP	190	95	0	-95	360	170
Depreciation & Impairment of Fixed Assets	DEP	5,994	2,997	0	-2,997	5,994	0
Interest Payable & Debt Management Costs	INT	4,179	2,089	102	-1,988	4,179	0
Total Expenditure		25,390	12,695	5,637	-7,058	25,044	-346
Net cost of Services		72	-465	-7,734	-7,269	-141	-213
Net Operating Expenditure		72	-465	-7,734	-7,269	-141	-213

2.3 The main causes of the variances are:

- **Repairs & Maintenance** - Anticipated Efficiency savings arising from improved work planning and timely delivery of works.
- **Supervision & Management** - The variance is predominantly due to vacant posts pending the ongoing review of the Housing function and reduced professional and consultancy fees.
- **Provision for Bad Debt** – Increase in arrears especially former tenants due to prevailing economic conditions.
- **Tenants Charges for Services and Facilities** - Anticipated reduced income from personal care/support charges at St David's.

Capital Spending 2022/23

2.4 The HRA has a capital budget of £14.180m. It is expecting to spend £10.137m during the year, resulting in slippage of £4.043m. Spend to Q2 is £6.724m against a pro rata budget of £7.090m. This is only £0.366m below budget.

2.5 The major projected variances (which come in the second half of the year) are as follows. The complete list is in Appendix A.

- Internal refurbishments. Tenders have been returned and are being evaluated so spend expected to be low this financial year, slippage is £1.700m.

Audit, Governance & Standards Committee

27th October

2022

- Housing 1-4-1 Replacements. There are no new acquisitions planned in year as per Budget Assumption. This slippage is £0.700m.
- HRA Compartmental Work. There has been significant improvement in contractor delivery and additional schemes of works identified but there will still be £0.500m of slippage.
- Disabled adaptations. A new contract was recently awarded in Oct 22 so reduced activity is expected to end of FY. Slippage £0.325m.
- High Trees project. Tenders being developed at the moments - will be mainly fees. Slippage in year £0.470m.

The Viability of the HRA

- 2.4 The Housing Revenue Account is ring-fenced within the council's overall accounts and is used to account for transactions relating to council housing. Since the introduction of Self-Financing in April 2012 the council has been able to retain all the income generated from its council housing. Income received from rents, service charges and other sources within the Housing Revenue Account is used solely for the purpose of maintaining and investing in council housing and delivering services to tenants.
- 2.5 This HRA Business Plan shows 30 year cash-flows that can be used to help inform decision making about, for example, investment in existing housing stock and making the most of opportunities to provide new council homes to meet future demand for housing.
- 2.6 When applying the next 30 years financial projections the plan takes account of the Government's rent policy and the expected reduction in properties through RTB sales. RTB sales can undermine the long-term financial viability of the HRA and so Government policy encourages us to replace homes with the help of proceeds from the RTB sales which are subject to complex rules on how they can be used.
- 2.7 Capital receipts from the sales of council dwellings can only be used to finance up to 40% of the cost of replacements homes. Any such receipts that remain unused after 5 years need to be paid to government along with interest to finance new homes as part of the government's affordable housing programme. To address this issue, we have plans to deliver up to deliver new affordable homes over the 30 year period.

Audit, Governance & Standards Committee

27th October

2022

- 2.8 The Council recognises that the demand for HRA financial resources will intensify over time to ensure that we comply with the new and emerging requirements like greater resident involvement, fire, electrical and building safety requirements, potential changes to the Decent Homes standard and decarbonisation of the homes. Therefore, we will review the HRA Business Plan annually to take account of new requirements as they become clearer and to ensure that we can deliver as much as possible for our tenants and the city with the resources that we have available to us.
- 2.9 The council cannot legally set a deficit budget for the HRA and so we need to ensure that we have adequate **HRA balance reserves** in place to manage risks and finance uncertainties that may arise. Under the assumptions used in this base business plan, the Housing Revenue Account can maintain HRA balance reserves £2.6m over the next 5-10 years period.
- 2.10 Additionally, we have earmarked capital Reserves which will be used to part fund 60% of the costs of replacement homes and for the repayment of HRA outstanding debt. The reserves will increase as the Housing Revenue Account generates ongoing surpluses over the next 30 year period.
- 2.11 The capital expenditure on the existing housing stock and neighbourhoods is based upon our stock condition data. The future capital programmes will be based upon investment need resulting from rolling stock condition surveys and guided by the principles outlined in the HRA Asset Management Strategy.
- 2.12 In addition to maintaining adequate HRA balance reserves and earmarked capital reserves, the Business Plan produces a fully financed capital programme. The base plan assumptions indicate that we can deliver the investment required in our homes from the resources that we have available.
- 2.13 Essentially, the base plan demonstrates that our Housing Revenue Account is financially viable over the long term, and we will have resources available to help us manage risk and pay for our existing plans and the investment needed in our council housing. We will strive to ensure that future investment in our housing stock provides excellent value for money.

Audit, Governance & Standards Committee

27th October

2022

The Government's Consultation on Rent Increases

- 2.14 The Council have been consulted on raising Housing Rents. As you will have seen in the Local Government Press, DLUHC have run a consultation that required a response by the 12th October on the Councils view of limiting increases to 3%, 5% or 7%. Articles suggest that these will be the maximum. This is due to the present national formula being CPI plus 1% which the Government see as being unaffordable as it would lead to rises of well above 10%.
- 2.15 The Council have just been through a process in Tranche 1 of the budget for General Fund Services where we are increasing most Fees and Charges by 10% using the following Rationale:
- We have the proposed £1,925 increases in Pay on all spinal points.
 - We have inflation running at over 10%.
 - We have Fuel inflation running at over 100% (and up to 400%).
 - We have a limit on raising Council Tax of 1.99%.
- 2.16 The HRA is different as it is ring fenced and cannot be supported from the General Fund. Overall:
- You must plan for multiple years (30).
 - The HRA **cannot** go into deficit.
 - Rents (and Service charges) need to reflect the full cost of delivery to residents and tenants including the cyclical refurbishment and repairs of homes.
- 2.17 An Officer meeting was held on the 4th October to assess the 3 options and what would be the most viable solution for the Council – while limiting increase to tenants and residents. A number of different scenarios were assessed for the three options. Different variables were input and the following key assumptions were arrived at for planning purposes.
- Pay inflation in 23/24 is assumed to be 4.4%, reducing to 2.5% in 24/25 before levelling out at 1% for future years.
 - Inflation is assumed to be 10% in 23/25, reducing to 7.5% in 25/26, then 5% to 26/27 before flattening out at 3% for future years.
 - Right to buys are assumed to be 40 a year offset to a degree by New Build/Acquisitions of 20 a year – seeing a net 20 reduction from our initial 5,563 properties over time.

Audit, Governance & Standards Committee

27th October

2022

- 2.18 These scenarios seemed to the group to be prudent given where the economy is at the present time
- If rents were to rise by just 3% a year a loss is made in the years 23/24 to 27/28 of a combined amount of £965k. This would cut the HRA earmarked reserves by a third.
 - If rents were to rise by 5% for the 2 years, then reducing to 3% then a surplus is continued to be delivered ensuring the viability of the HRA.
 - If rents were to rise by 7% for 2 years this doubles the surpluses seen in the 5% option.
- 2.19 It is the Officers view in assessing this data, the affordability to residents/tenants, and the overall viability to the HRA that a 5% increase for 2 years is the Councils response to the Consultation. We now await the Governments response to this consultation.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising out of this report. The projected outturn position shows a revenue underspend to budget of £141k and capital slippage of £4.03m for the financial year.

4. LEGAL IMPLICATIONS

- 4.1 The Council has a statutory responsibility to comply with housing and financial regulations.

5. STRATEGIC PURPOSES - IMPLICATIONS

Relevant Strategic Purpose

- 5.1 The issues detailed in this report link to the following strategic purposes:
- Finding somewhere to live.
 - Living independent, active, and healthy lives.

as well as ensuring that there is an effective and sustainable HRA.

Climate Change Implications

Audit, Governance & Standards Committee

27th October

2022

- 5.2 As set out in section 2.8, the Council will be undertaking a programme for the decarbonisation of homes.

6. OTHER IMPLICATIONS

Equalities and Diversity Implications

- 6.1 The new contract for disabled adaptations will speed up the process of tenants with identified needs getting the adaptations they require.

Operational Implications

- 6.2 The HRA is run by a separate set of rules from the Council. It has its own separate accounts and must remain in surplus.

7. RISK MANAGEMENT

- 7.1 As part of all Audit work the auditors undertake a risk assessment to ensure that adequate controls are in place within the Council so reliance can be placed on internal systems. The HRA is part of that Internal Audit process.

8. APPENDICES and BACKGROUND PAPERS

Appendix A – Capital Spend by Project

Audit, Governance & Standards Committee

27th October

2022

9. REPORT SIGN OFF

Department	Name and Job Title	Date
Portfolio Holder	Councillor Karen Ashley, Portfolio Holder for Finance and Governance	
Lead Director / Head of Service	Peter Carpenter – Interim Director of Finance	19 Oct 2022
Financial Services	Peter Carpenter – Interim Director of Finance	19 Oct 2022
Legal Services	N/A	
Policy Team (if equalities implications apply)	N/A	
Climate Change Officer (if climate change implications apply)	N/A	

Audit, Governance & Standards Committee

27th October

2022

Appendix A – Capital Spend by Project

REDDITCH BOROUGH COUNCIL

Audit, Governance & Standards Committee

27th October

2022

HRA Capital Outturn Quarter 2 2022-23		2022/23	2022/23	2022/23	2022/23	2022/23	2022/23	2022/23	
Project	Project Description	Fall Year Budget £'000	Budget to Date Apr - Sept £'000	Actuals + Comm Apr - Sept £'000	Variance Apr - March £'000	Projected Outturn £'000	Projected Variance £'000		Notes
100066 - Design and Supte	- Design and Supte	350,000.00	175,000.00	-	-175,000	507,000.00	157,000.00		More staff time allocated to the delivery of the capital programme
100067 - Door Entry/CCTV	- Door Entry/CCTV	500,000.00	290,000.00	448,633.33	198,633	600,000.00	100,000.00		Significant improvement in contractor delivery and additional schemes of works identified
100068 - HRA Hand Wires S	- HRA Hand Wires S	590,000.00	295,000.00	398,535.65	63,536	590,000.00	-		Behind on payments - New regulations from OJ10 fast tracking non compliant properties
100070 - HRA Bin Store	- HRA Bin Store	150,000.00	75,000.00	51,900.39	-23,100	175,000.00	25,000.00		Additional sites were identified that required replacement
100073 - General Roofing	- General Roofing	150,000.00	75,000.00	4,225.00	-70,775	100,000.00	50,000.00		Contract awarded but subject to leaseholder consultation
100074 - Balcony Replace	- Balcony Replace	50,000.00	25,000.00	14,307.75	-10,692	10,000.00	40,000.00		Contract at procurement stage therefore limited spend expected in FY
100075 - Water Supply	- Water Supply	25,000.00	12,500.00	-	-12,500	25,000.00	-		Contract awarded but subject to leaseholder consultation
100082 - HRA Property pu	- HRA Property pu	-	-	25,820.08	-25,820	-	-		
100083 - HRA Compartment	- HRA Compartment	2,000,000.00	1,000,000.00	494,986.77	-505,033	1,500,000.00	500,000.00		Significant improvement in contractor delivery and add streams of works identified
100084 - Major Works wor	- Major Works wor	600,000.00	300,000.00	642,881.17	342,881	750,000.00	150,000.00		Existing and newly arising capital works
100098 - HRA-Energy Eff	- HRA-Energy Eff	500,000.00	290,000.00	275,306.24	25,306	270,000.00	220,000.00		Completion of works now signed off
110001 - INTERNAL REFURB	- INTERNAL REFURB	2,000,000.00	1,000,000.00	48,548.76	-93,451	300,000.00	1,700,000.00		Tenders returned and being evaluated so spend expected to be low this financial year
110002 - FIRE ALARM UPGR	- FIRE ALARM UPGR	300,000.00	190,000.00	33,755.65	-116,244	90,000.00	210,000.00		
110003 - HIGH TREES PROU	- HIGH TREES PROU	500,000.00	290,000.00	19,063.42	-230,937	30,000.00	470,000.00		Tenders being developed - will be mainly trees
110004 - DISREPAIR CASES	- DISREPAIR CASES	75,000.00	37,500.00	26,649.97	-10,850	75,000.00	-		
110005 - External Improvements	- External Improvements	100,000.00	50,000.00	29,910.45	-20,090	30,000.00	70,000.00		External works to Mendip Hse only in FY
110006 - Community Safety	- Community Safety	175,000.00	87,500.00	-	-87,500	10,000.00	165,000.00		Improvements to Cedar view identified but limited spend in FY
		14,180,000.00	7,090,000.00	6,724,398.67	365,601.33	10,137,000.00	4,948,000.00		